

FISCAL NOTE

HB 42 – SB 132

February 5, 2007

SUMMARY OF BILL: Exempts from state and local sales tax the retail sale of any motor vehicle sold in Tennessee to an active member of a uniformed service of the United States whose home record is in Tennessee.

ESTIMATED FISCAL IMPACT:

Decrease State Revenues – \$5,785,000

Decrease Local Govt. Revenues – Net Impact - \$456,000

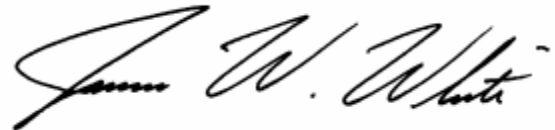
Assumptions:

- The uniformed military person must have resided in Tennessee at least five consecutive years prior to active military service.
- The exemption shall apply from the effective date of official military orders assigning the individual to active duty in the military and shall expire upon the date of such person's discharge from the military.
- Based on previous estimates provided by the Department of Defense (2005), the Tennessee National Guard (2005), and the Coast Guard (2006), approximately 27,000 people from Tennessee are considered active-duty uniformed service personnel.
- Number of active-duty uniformed service personnel remains constant.
- 80% meet five-year residency requirement.
- The number of eligible military persons is estimated to be 21,600 (27,000 X 80% = 21,600).
- Average turnover rate is one new vehicle every five years.
- The annual number of eligible military persons purchasing a new vehicle is estimated to be 4,320 (21,600 eligible ÷ 5-year turnover ratio = 4,320 vehicles).
- Average price of a new vehicle is \$18,500.
- Current state sales tax rate is 7.00%.
- State single article tax is 2.75% on any portion above \$1,600 and below \$3,200.

- Average state exemption per vehicle is estimated to be \$1,339 ($\$18,500 \text{ price} \times 7.00\% + [\$1,600 \times 2.75\%] = \$1,339$).
- The decrease to state sales tax revenue is estimated to be \$5,785,000 ($4,320 \text{ vehicles} \times \$1,339 = \$5,784,480$).
- The estimated \$5,785,000 in state sales tax revenue would have been apportioned as follows: \$1,679,000 to the General Fund, \$3,766,000 to education, \$266,000 to local governments, \$21,000 to the Department of Revenue, and \$53,000 to the Sinking Fund.
- Local governments are not held harmless from any loss of state-shared sales tax revenue or local option sales tax revenue.
- Local governments lose approximately \$266,000 per year in state-shared sales tax revenue.
- Local option sales tax cap is estimated to be \$44 per vehicle.
- The recurring decrease to local government revenue is estimated to be \$456,000 [$4,320 \text{ vehicles} \times \$44 = \$190,080$] + \$266,000 in state-shared sales tax revenue = \$456,080].

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director